

# HOUSE BILL REPORT

## HB 2791

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### As Reported by House Committee On: Ways & Means

**Title:** An act relating to funding all-day kindergarten.

**Brief Description:** Funding all-day kindergarten.

**Sponsors:** Representatives Lytton, Jinkins, Ladenburg, Billig, Reykdal, Tharinger, Fitzgibbon, Hansen, Wylie, Moscoso, Roberts, Maxwell, Green, Santos, Carlyle, Ryu, Lias, Appleton, Hunt, Hasegawa, Ormsby, Orwall, Moeller and Kenney.

#### **Brief History:**

##### **Committee Activity:**

Ways & Means: 2/24/12, 3/1/12, 3/3/12 [DP].

#### **Brief Summary of Bill**

- Provides additional funding for all-day kindergarten by repealing the nonresident sales tax exemption.

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### HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass. Signed by 16 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Carlyle, Cody, Dickerson, Haigh, Hudgins, Hunt, Kagi, Kenney, Ormsby, Pettigrew, Seaquist, Springer and Sullivan.

**Minority Report:** Do not pass. Signed by 10 members: Representatives Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Chandler, Haler, Parker, Ross, Schmick and Wilcox.

**Staff:** Jeffrey Mitchell (786-7139).

#### **Background:**

Retail sales and use taxes are imposed by the state, cities, and counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and

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some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the property, digital products, or services were acquired by the user, then use taxes apply to the value of most tangible personal property, digital products, and some services when used in this state.

A sales tax exemption is allowed to residents of a state, possession, or Canadian province that does not impose a retail sales tax or use tax of 3 percent or more on purchases of goods for use outside the state. The exemption does not apply to items or services consumed in the state such as hotel stays or meals at restaurants. Retailers are not required to make tax exempt sales to qualifying nonresidents. A vendor may choose to collect sales tax on purchases made by qualifying nonresidents or to sell merchandise tax free.

Beginning with the 2007-08 school year, funding for voluntary all-day kindergarten programs started with schools with the highest poverty levels, which are those schools with the highest percentages of students qualifying for free and reduced-price lunch support. The phased-in approach to funding the full-day kindergarten program is expected to continue until full statewide implementation is achieved in the 2017-18 school year. Currently, there are approximately 78,000 kindergarten students in Washington with approximately 17,000 participating in the full-day kindergarten program.

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**Summary of Bill:**

The nonresident sales tax exemption is repealed.

Beginning in 2013, and every year thereafter, the Department of Revenue must estimate the increase in state revenue resulting from the repeal of the nonresident sales tax exemption. Based on this estimate, the State Treasurer is required to transfer, on an annual basis, the estimated amount from the State General Fund to a new all-day kindergarten account. Money in the account must be used to provide additional funding for all-day kindergarten.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect July 1, 2012.

**Staff Summary of Public Testimony:**

(In support) Promises to our schools have been made and now it's time to follow through on those promises. The state received a stinging rebuke in the *McCleary* decision and has fallen short of its paramount duty to fully fund K-12 education. All-day kindergarten is the best investment we can make in our students to ensure they are successful in school and in life. We support dedicating revenue streams to fund all-day kindergarten. This bill puts the state

in a much stronger position in demonstrating a specific commitment to fulfill the requirements under the court decision.

(Opposed) Critical services such as all-day kindergarten should not be tied to a volatile tax source. Nonresidents should not be responsible for paying for core constitutional services. Businesses in border counties should not be put at a competitive disadvantage. We would support a proposal that goes after use tax collection on individuals, which would not require a two-thirds vote. This bill will have a negative impact on many businesses and cause people to lose jobs. A recent examination of this exemption by the Joint Legislative Audit and Review Committee indicated that the exemption is serving its purpose of removing a disincentive to not shop in Washington. Many border counties rely heavily on nonresident business. This bill will cause a loss in other taxes as well.

**Persons Testifying:** (In support) Representative Lytton, prime sponsor; Shawn Lewis, Office of Superintendent of Public Instruction; and Ben Rarick, State Board of Education.

(Opposed) Amber Carter, Association of Washington Business; and Mark Johnson, Washington Retail Association.

**Persons Signed In To Testify But Not Testifying:** None.